

COMMENT: Political risk and economic reforms

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PAKISTAN is facing a myriad of problems such as inflation, joblessness, unstable currency, unaffordable energy bills and falling living standards.

The recent [announcement](#) of heavy investment by the Gulf countries is highly welcome, but this should not divert the attention of caretakers or the incoming elected government from pursuing aggressively an agenda of much-delayed reforms to tackle underlying structural problems.

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The country can no longer afford to lull itself into complacency and headline-catching news should not deviate from taking tough but unpopular decisions.

The caretaker government's tenure offers an excellent opportunity and time for our major political parties to prepare themselves to design the package of reforms they would announce immediately after the winning party assumes office. This timing is important because the honeymoon period provides an excellent opportunity to bite the bullet.

To make this happen in actual fact, our establishment and judiciary would have to keep their hands off and let the elected governments complete their tenure uninterrupted, without fear of political engineering or judicial activism.

Political instability and the risk of elected governments being thrown out of office prematurely — with its adverse consequences for continuity, consistency and predictability of economic policies — is one of the major factors for Pakistan's poor economic performance.

Over the last 25 years, Pakistan had 12 prime ministers, while both India and Bangladesh had three each, and look at the relative performance of these countries.

Let the politicians make mistakes for which they would be accountable to the electorate. Pakistan's armed forces have earned the reputation for excellence and professionalism, now civilian government institutions should be allowed time and space to accomplish those hallmarks.

The political parties have to learn from our past failures and change their tune if trust in democratic institutions is to be revived for the future of this country.

Instead of focusing on individual members winning the constituencies, elections should be contested on the basis of reforms and realistic plans to deliver essential public goods and services to the majority of the population.

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No economy, even of a much smaller size of one million people, operates with an on-and-off switch. Sound economic management is the cumulative effect of policies pursued and implemented by successive governments.

So let us put to end to the blame-game, which has become a common whipping horse upon assuming office. People are no longer interested in what the previous government did wrong; they are more interested in finding out what the incoming government we have voted in is going to do in the next five years.

Electoral cycles of five years are not ideal, but the newly-elected government can take tough decisions that would cause some pain in the short term, but would begin to show positive results in year five, when it would be time to seek votes again.

They can plead to the electorate: "We have successfully begun to get the economy out of crisis and steer it in the right direction. We have not completed our mission yet and would need your support to continue the right policies to further improve your living conditions".

If the electorate does not believe that the incumbent government has performed, they would throw it out of power. Then, their opponents would

realise that if they too are unable to produce the desired results and keep on pandering to the demand of the narrow-minded elites, they too would also be rejected.

Imagine what would have been the economic fate if Benazir Bhutto and Nawaz Sharif would have completed their five-year tenures, or more recently, if [Imran Khan](#) was allowed to complete his term in office.

If each prime minister is constantly struggling to survive in office and remains insecure, then he/she cannot afford to take the risk of introducing unpopular and tough, but necessary reforms.

The media also has to play a positive role. They should show patience for at least the first few years, as the incumbent government takes unpopular decisions. There would be protests, strikes, agitations but the media should not play an active part in amplifying and sustaining these and let some stability prevail in the country.

However, whichever political party wins, it would face some harsh and incontrovertible realities. The perilous economic conditions of Pakistan would not allow any incoming government to take independent decisions and provide across-the-board relief.

There will be no alternative but to go for an extended IMF programme, as the country is no position to meet obligations to external creditors of over \$80 billion dollars in the next three years. Our dependence on external credit, which used to be around six to eight billion dollars annually, has risen to around 25 billion dollars per annum.

At the same time, the gap between Pakistan's promises and actual delivery has eroded our credibility. We should not be surprised if the conditionalities under the new programme are much tougher than before, with serious sufferings and hardship for the people of Pakistan — unless we initiate the reforms to eliminate elite capture.

The [recent protests](#) against [rising electricity bills](#) testify to the helplessness of any government, even if non-elected, to find an amicable solution. The price we have to pay for adjustment in the short term is high inflation, a [fast-depreciating currency](#) and rising cost of capital, which discourages investment.

Only structural reforms announced soon after a new government assumes power can break this vicious cycle, as negative domestic sentiment is altered.

Our friendly neighbours China, Saudi Arabia and UAE are no longer in the mood to write cheques. As true and sincere friends, they are genuinely keen to break the begging bowl syndrome and help Pakistan stand on its two feet by raising investment levels to expand domestic production capacity. This gap between domestic supply and demand is currently being met by imports.

Once the economy exceeds the speed limit i.e. it starts growing the balance of payments, it comes under pressure and faces a crisis situation, forcing us to step up external borrowing. An agrarian country with one of the largest contiguous irrigated areas — the Indus Basin — should not spend about \$10 billion annually on importing wheat, cotton, sugar, edible oil, milk powder, pulses etc.

Instead, we should be exporting these commodities, and other products such as halal meat, fish and marine products, fruits and vegetables, packaged and branded rice etc; saving and earning foreign exchange in the process. Policies and investment in raising agricultural productivity would have a positive impact on rural incomes, balance of payments and inflation.

Every political party realises that 60 per cent of our population is below the age of 30 and looking for a job. They have to be gainfully employed, but mere rhetoric and speeches will not do the trick. A massive exodus of talented young men and women can be converted into an economic advantage through upskilling and training.

The incoming government, therefore, has to announce a strategic plan of economic direction soon after assuming office. The ingredients of such a plan are well known, but to briefly recapitulate, the six priority areas are:

- (a) Increase domestic savings for investment by reducing government expenditure and losses of SOEs;
- (b) Tax those sectors that account for 60pc of the national economy rather than the formal sector;
- (c) Incentivise exports of non-traditional products and IT services, penetrating new markets and make them competitive internationally, reduce the tax and regulatory burden on manufacturing sector while encouraging investment in

steel, petrochemicals, refineries, electronics etc for feeding downstream industries;

(d) Raise productivity in agricultural commodities through an integrated package of credit, seeds, fertilisers, machinery, plant protection, animal husbandry, veterinary services, etc;

(e) Undertake a massive program of upskilling the youth — especially science, mathematics and engineering graduates — through hands-on short-term courses, boot camps, certifications and expand the private sector-led technical and vocational training facilities;

(f) Transfer the retail side of electricity and gas distribution to private sector companies through competitive market structure; and,

(g) Overhaul and modernise the government structure and processes through automation, computerisation and digitalisation.

The good news is that all major political parties have these measures part of their past election manifestos and pronouncements of their leaders. The diagnostic studies, policy recommendations and detailed measures to be taken on each of these reforms are already available, but have not been transformed into action plans with milestones, responsibilities for implementation, timelines, coordination between the federal and provincial governments (a weak area so far) and monitoring mechanisms.

There is no need for either the caretakers or the incoming government to commission any new strategy papers, working group reports, task forces, or solicit recommendations from the economic advisory council.

Between now and the elections each party should form internal working groups on these six priority areas, or other areas they think are important, consisting of politicians (not technocrats or civil servants) to scrutinise the available policy proposals and come up with their own action plan for the consideration of the party leadership.

It is the calculus of political costs and benefits which would determine whether such a plan can be implemented and put the country on a different path, or it would continue to muddle from one crisis to another.

It would be too late if they start this spadework once they assume office, as other compelling factors would not allow them time to carry out such an arduous task.

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